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## The German Economic Dilemma

BY JOHN C. deWILDE

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# The German Economic Dilemma

BY JOHN C. deWILDE

*with the aid of the Research Staff of the Foreign Policy Association*

JANUARY 30, 1937 marked the end of the four-year "battle against unemployment" which Hitler had announced on his accession to power. According to official statistics the number of registered unemployed had declined from 6,014,000 at the end of January 1933 to only 1,478,000 at the end of December 1936. Of this number, which was less than in 1929, some 237,000 were held to be no longer fully employable and a few hundred thousand were regarded as merely shifting from one job to another.<sup>1</sup> Skilled workmen had become increasingly scarce, and both government authorities and economic journals were seriously considering whether the available labor supply would be sufficient in the future to sustain a continued rise in production.<sup>2</sup> The number of persons gainfully employed in December 1936—16,955,000 as compared to 11,487,000 in January 1933—had attained 1929 levels. With about 700,000 additional men<sup>3</sup> drawn into the army and some 210,000 in the Labor Service, the labor reserves had shrunk to relatively small proportions.

During the first two years of the National Socialist régime part of the re-employment was highly artificial. Many young men were displaced in their regular jobs and sent to farms with nominal wages to serve as "land helpers." Others were employed on various types of "made" work, or were simply placed in factories, irrespective of the need for additional labor. Numerous women, moreover, were encouraged or compelled to yield their positions to men. In the last few years, however, this so-called "additional" employment has declined in

importance. The number of "land helpers," welfare and emergency workers dropped from an average of 560,000 in 1934 to 110,000 at the end of November 1936.<sup>4</sup> Women have again found employment, so that the number engaged in industry during the first half of 1936 was actually 350,000 higher than in the spring of 1933.<sup>5</sup>

The re-employment of millions of idle workers is primarily attributable to the rise in production. At the end of December 1936 industrial output was running 12 per cent ahead of 1928, and well in excess of 1929. This recovery has been largely the product of government policy. To some extent private initiative was encouraged by extending subsidies for house building and repairs, and by granting tax alleviations to entrepreneurs for capital replacements. Direct government expenditures on public works and armament, however, proved to be the most powerful stimulus to industry. During the first two years of the Nazi régime public works were the dominant preoccupation. The government drew up a project for the construction of a network of automobile highways, of which 1000 kilometers were completed by September 1936.<sup>6</sup> With the introduction of compulsory military service in 1935, ever larger sums were spent on the army, navy and air force. Many industries were also compelled to invest considerable capital in plants designed to produce essential raw materials formerly obtained abroad. All this expenditure was reflected in the phenomenal rise in the output of production goods from an index of

1. Institut für Konjunkturforschung, *Vierteljahrshefte zur Konjunkturforschung* (hereafter cited as *Vierteljahrshefte*), No. 3, Part A, 1937, p. 286.

2. *Ibid.*, p. 298.

3. This is the total after deducting the 100,000 men in the *Reichswehr* before the introduction of compulsory military service.

4. *Vierteljahrshefte*, Part A, No. 3, 1937, p. 115; also *Weekly Report of the German Institute for Business Research*, 4th Supplement, January 13, 1937.

5. *Wirtschaft und Statistik*, 2nd October number, 1936.

6. *Völkischer Beobachter*, September 28, 1936. Two hundred thousand workmen were employed in highway construction at that time, and more than one-third of the 3.5 billion Reichsmarks originally estimated as the cost for the first 7000 kilometers had been expended.

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54 in 1932 to 115.3 in December 1936—an increase of 113 per cent. Coal output for December 1936 amounted to 14,681,000 tons, as compared with 9,855,000 tons four years previously. During the same period, production of pig iron rose from 364,000 to 1,275,000 tons, that of steel from 506,000 to 1,470,000 tons. Pre-depression levels were in each case attained or exceeded. Recovery in the consumption goods industries has been much less rapid, although at the end of 1936 production of goods with elastic demand was again running 2.9 per cent above 1928 totals.<sup>7</sup>

Despite these indications of returning prosperity, economic conditions in Germany are generally regarded—particularly abroad—as far from sound. Recovery is known to rest largely on huge expenditures for unproductive armaments and for public works on which no immediate return can be expected. Individual living standards are still at depression levels, except for those formerly unemployed who have now found work. Two factors especially jeopardize the whole economic structure: the failure of German foreign trade to keep pace with the internal boom, and the financial situation of the Reich.

While industry has expanded its operations to 1929 volume, the income of foreign exchange from export trade and other business transactions has shrunk to such an extent that it has become increasingly difficult to satisfy the growing need for foreign raw materials and foodstuffs. Measures of ever greater severity have been adopted to safeguard absolutely essential supplies. Raw materials have had to be rationed and the importation of foodstuffs so restricted as to necessitate the limitation of consumption. The government has launched a vigorous campaign to increase Germany's economic self-sufficiency by means of a Four-Year Plan announced by Chancellor Hitler at the National Socialist Party Congress in September 1936. German economy has been closely regimented, with prices, wages, foreign trade and consumption controlled and directed by the government. The difficulties experienced in obtaining raw materials have produced a cry for more "room" and an aggressive campaign for colonies.

The financial situation of the Reich has also aroused serious concern. Although reliable data are lacking, the rearmament program has cost billions of Reichsmarks, and the Four-Year Plan will place an additional financial burden either on the government or on German industry. A substantial

part of this expenditure has been financed with short-term paper. Now that many industries are operating at near-capacity and thus experiencing an increasing need for new capital investments and replacements, fear is often expressed abroad that the financial structure may not be able to stand the strain and that inflation may result.

#### DEVELOPMENT AND REGIMENTATION OF GERMAN FOREIGN TRADE

When the Hitler government came to power early in 1933 Germany still enjoyed a considerable export surplus with which to make payments on foreign debts and meet other obligations. Owing to the drop in raw material prices and with the sharp decline in German economic activity, imports had fallen off much more rapidly than exports, so that 1931 showed a record export surplus of 2872 million marks. By the following year, however, the surplus had dropped to 1073 million. The value of exports continued to decline well into 1935, while the program of internal economic expansion which the National Socialist government carried out made further curtailment of imports impossible. In 1934 imports actually exceeded exports by 284 million marks.

#### COMPARATIVE WHOLESALE PRICES IN GOLD\*

Year	Germany	Britain	United States	France
1929	100	100	100	100
1932	70.3	53.9	68	68.2
1933	68.8	51.1	55.9	63.6
1934	71.7	47.6	47.0	60.0
1935	74.2	46.6	49.8	54.0
1936—Nov.	76.1	51.1	51.0	55.0

\*Calculated from League of Nations, *Monthly Bulletin of Statistics*, February 1937.

While the general effects of the economic depression were primarily responsible for the decrease in German sales abroad, certain special factors played a leading rôle. The most important of these was undoubtedly the growing disparity between German and foreign prices. While one country after another allowed its currency to depreciate, Germany not only refused to devalue the mark but adopted a reflationary economic program which produced a rise in German prices.<sup>8</sup> German merchants were thus compelled either to curtail their exports or sell goods at ruinously low prices. For many reasons the German government refused to abandon the foreign exchange control which

8. The increase in prices is probably underestimated by German statistics because no account is taken of the numerous evasions of price regulations and the deterioration in quality of many products.

7. Statistics compiled from weekly and quarterly reports of the *Institut für Konjunkturforschung* and the *Monthly Bulletin of Statistics of the League of Nations*.

kept the mark pegged to gold at the old rate. Early in 1936 it was estimated that devaluation of the mark would increase the German foreign debt, 80 per cent of which was contracted in foreign currency, from 13 to 20 billion marks and would correspondingly raise interest and amortization charges.<sup>9</sup> The government also believed devaluation might greatly increase the price of imported raw materials without necessarily bringing about an offsetting rise in the sale of German goods abroad. Besides, there was the fear that depreciation might irreparably injure the government's prestige at home. Even after France, Switzerland and the Netherlands devalued their currencies in September 1936, the Reich declined to follow suit.<sup>10</sup>

The very fact that more than three-quarters of German exports consist of finished goods made the Reich's trade exceedingly vulnerable to foreign import restrictions. During the depression many countries sought to dispense as far as possible with imported manufactures and to foster domestic production of these articles. For political reasons German trade was also subjected to an unofficial boycott, the effect of which, however, was negligible except for a few countries such as the United States.

#### CURTAILMENT OF THE DEBT SERVICE

The German government took a number of measures to relieve the unfavorable balance of international payments. One of the most important of these was to curtail the transfer of payments on foreign debts, which in February 1933 still totaled about 19 billion Reichsmarks. This action, however, did not affect the short-term debts owed to foreign banks, which have been regulated by the so-called standstill agreements first put into effect in September 1931 and renewed in February of each year. Under these arrangements the government has permitted the transfer abroad of interest payments<sup>11</sup> and gradual amortization of the principal. At the beginning of 1937 the standstill debt had declined to only 1 to 1.1 billion marks, as compared with 6.3 million in July 1931.<sup>12</sup> Creditors have obtained repayment primarily by selling their holdings at a considerable discount for the use of foreigners travelling in Germany.

9. Rudolf Eicke, *Warum Aussenhandel?* (2nd edition; Berlin, Verlag für Sozialpolitik, Wirtschaft und Statistik, 1936), p. 76.

10. Cf. statement made by Dr. Schacht before the Central Committee of the Reichsbank on September 30. *Völkischer Beobachter*, October 1, 1936.

11. The interest rate on the short-term debt has been repeatedly reduced.

12. *New York Times*, February 19, 1937; also *New York Herald Tribune*, February 15, 1937.

On July 1, 1933 the Reichsbank put into effect a partial transfer moratorium permitting payment in foreign exchange of only 50 per cent of the interest charges on long-term foreign debts. The remainder was to be paid into a German Conversion Office in exchange for non-interest-bearing scrip. Since a subsidiary of the Reichsbank, the Golddiskontbank, subsequently agreed to buy this scrip at 50 per cent of its face value in foreign exchange, the long-term debt service was actually curtailed by 25 per cent. In December 1933 the Reich increased the proportion payable in scrip to 70 per cent, although it subsequently arranged to redeem this amount at 67 instead of 50 per cent. The moratorium was made even more stringent on July 1, 1934, when the Reich confronted German creditors with the choice of accepting either 40 per cent in foreign exchange as full payment of interest and amortization charges or funding bonds maturing at the end of 1944 but redeemable at any time at 40 per cent of their face value. On November 3, 1934, however, the Reichsbank withdrew even the offer to purchase the scrip or funding bonds at 40 per cent, thus making the transfer moratorium complete. The provisions excepting the Dawes and Young loans from transfer restrictions were also abrogated from July 1, 1934.<sup>13</sup>

It proved impossible for the German government to enforce a complete moratorium. Creditor countries in Western Europe which had an import surplus in their trade with Germany could impound the proceeds from the sale of German goods and thus enforce payment of the debt claims of their nationals. With these countries the Reich concluded special arrangements providing for partial or complete continuation of debt service.<sup>14</sup> This debt régime discriminated seriously against the United States which, owing to its favorable trade balance with the Reich, was not in a position to put pressure on the German government. The State Department protested vigorously,<sup>15</sup> but the Germans held that other creditors rather than the German government were responsible for the dis-

13. For a more detailed survey of these developments, cf. John C. deWilde, "Germany's Trend Toward Economic Isolation," *Foreign Policy Reports*, November 7, 1934; also C. R. S. Harris, *Germany's Foreign Indebtedness* (London, Humphrey Milford, 1935).

14. The accords with Britain, France, the Netherlands, Belgium-Luxemburg, Switzerland, Sweden and Italy covered interest on the Dawes and Young loans; those with Britain, the Netherlands, Switzerland, Sweden, and Belgium-Luxemburg, other debt payments as well. In several cases, however, the German government obtained some concession in the rate of interest. Cf. Harris, *Germany's Foreign Indebtedness*, cited, *passim*.

15. Cf. Note of November 23, 1934, Department of State, *Press Releases*, December 1, 1934.



criminator treatment. Nevertheless, Germany, in the fall of 1935, offered to transfer \$25 for \$35 interest coupons on Dawes loan bonds held in the United States, and \$20 for \$27.50 Young bond coupons.<sup>16</sup>

Germany has thus continued to meet part of its debt service. According to German figures about 250,000,000 Reichsmarks in interest was transferred during 1935<sup>17</sup> and an equivalent amount was probably paid in 1936. The total foreign debt is estimated to have declined from 26.8 billion Reichsmarks in the middle of 1930 to 19 billion in February 1933 and 13 billion in January 1936. Some 4 billion of this decline of 14 billion is ascribed to the depreciation of foreign currencies. The devaluation of the remaining gold bloc currencies in September 1936 is reported to have netted Germany a further reduction of one billion in the principal of the debt.<sup>18</sup> About 10 billion was actually repaid, but only part of it through regular amortization.<sup>19</sup> In 1933 and 1934 the Reich took advantage of the low quotations on German bonds in foreign markets to repurchase large blocs at a considerable profit, but shortage of foreign exchange compelled cessation of this procedure in 1935. Many foreign creditors preferred to liquidate their Reichsmark claims at considerable discounts for use in payment of tourist expenditure or imports from Germany. At the end of 1936 the foreign debt, inclusive of short-term obligations, probably did not exceed 11 to 12 billion marks.

Tightening of foreign exchange regulations was another method employed by the German government. In 1934, for example, the exportation of Reichsmark notes was prohibited; and travellers were permitted to take out of the country only 10 marks in silver. Since German currency continued to be smuggled, the government at first restricted and then—in January 1937—completely prohibited the importation of Reichsmark notes. Thus it has been made practically impossible to dispose of those notes abroad. Moreover, on December 1, 1936 capital punishment was decreed for any willful failure to surrender foreign exchange or any illegal attempt to export capital.<sup>20</sup>

16. This offer was tantamount to a reduction in interest from 7 to 5 and from 5½ to 4 per cent respectively. Similar payments were made available in 1936. The so-called funding bonds covering interest and amortization payments on other German loans were not made available to American investors until March 2, 1937, when registration formalities with the Securities and Exchange Commission were finally completed. Cf. *New York Times*, March 3, 1937.

17. Eicke, *Warum Aussenhandel?* cited, p. 67.

18. *New York Times*, October 3, 1936.

19. Eicke, *Warum Aussenhandel?* cited, pp. 66-67.

20. *Völkischer Beobachter*, December 2, 1936.

#### RATIONING AND REGIMENTATION OF IMPORTS

In order to conserve and enlarge the supply of foreign exchange, imports into Germany have been subjected to ever greater control. During 1933 and most of 1934 the Reichsbank continued the system of restricting imports by progressively curtailing exchange quotas assigned to individual importers. In September 1934 the government instituted the "New Plan,"<sup>21</sup> designed to hold imports strictly to the available amount of foreign exchange, to confine purchases as far as possible to countries which bought equivalent amounts from Germany, and to give preference to imports of raw materials, particularly those necessary for the armament industries. Administration of the new regulations was entrusted to 25—later 27—boards (*Ueberwachungsstellen*), which not only controlled the source and quantity of imports, but rationed the supply and restricted the purposes for which many raw materials might be used. In time these boards came to exercise an almost dictatorial sway over industries dependent on foreign materials.<sup>22</sup>

Under the New Plan Germany tried to shift its imports to countries with which it had clearing agreements. By the middle of 1936 twenty-eight such accords were in effect—with all but a few European nations and some overseas countries.<sup>23</sup> Since clearing agreements enabled German importers to pay in marks, the Reich covered as much of its foreign requirements as possible through this clearing procedure while reducing imports from non-clearing countries to the level of their purchases of German goods.<sup>24</sup> As a result of this policy large Reichsmark balances accumulated in Berlin to the credit of foreign exporters.<sup>25</sup> Certain nations—notably the Netherlands, France and Switzerland—counteracted this tendency by restricting exports to Germany. Others, more dependent on the German market, have seen little alternative but to increase their imports from the Reich in order to liquidate

21. DeWilde, "Germany's Trend Toward Economic Isolation," cited, p. 234.

22. For a description of the operation of the New Plan, cf. "Zwei Jahre 'Neuer Plan,'" *Wochenblatt der Frankfurter Zeitung*, September 27, 1936.

23. Austria, Bulgaria, Czechoslovakia, Danzig, Denmark, Estonia, Finland, France, Greece, Hungary, Italy, Latvia, the Netherlands, Norway, Poland, Portugal, Rumania, Spain, Sweden, Switzerland, the Soviet Union, Turkey and Yugoslavia; and Chile, Iran, Manchoukuo, the Union of South Africa and Uruguay. Cf. International Chamber of Commerce, *Clearing Agreements* (Paris, 1936).

24. Cf. *Weekly Report of the German Institute for Business Research*, October 21, 1936.

25. At the beginning of 1936 these balances are reported to have totaled 500,000,000 Reichsmarks. Cf. Eicke, *Warum Aussenhandel?* cited, p. 28.

outstanding mark balances and permit the continuation of German purchases. This has been particularly true of Southeastern Europe where German trade penetration has grown apace.<sup>26</sup>

Part of Germany's import needs have been satisfied by barter and private clearing. At first direct barter deals were the rule, but since the inauguration of the New Plan most of the barter has taken place indirectly. Under a system of private clearing, foreign exporters have been paid in marks and allowed to sell these so-called Aski marks (*Auslaenderkonten für Inlandszahlungen*) to importers wishing to buy additional goods in Germany. This Aski compensation or barter was particularly successful in promoting trade with Latin America.<sup>27</sup> On the whole, barter trade proved disappointing. Non-essential luxuries or semi-luxuries were often imported in this way and, since Aski marks could be sold only at a discount, German importers were required to pay considerably higher prices. Moreover, compensation deals often included German goods which could just as well have been sold for foreign exchange and without a subsidy. New regulations, issued in December 1935, excluded from direct barter or Aski payments a long list of goods in which Germany possessed a monopoly or strong competitive advantage, and products containing a substantial amount of foreign raw materials. A second list—extended in May 1936—specified goods in which compensation trade was forbidden only with overseas countries with which Germany had no clearing agreements. Moreover, except for trade with Latin America, exchange for non-essential commodities was permitted only on a 1 to 3 ratio in favor of German exports.<sup>28</sup> On February 24, 1937 the Foreign Exchange Control Bureau decreed more sweeping restrictions, which were generally interpreted as presaging the virtual abolition of Aski and barter trading.<sup>29</sup>

It has been estimated that in 1935—and probably also in 1936—about 55 to 60 per cent of German exports were paid for through clearing, and an additional 15 to 20 per cent through private barter. Only about 20 per cent of German sales abroad produced free foreign exchange, and of this sum half went to service the foreign debt. The amount available for imports which had to be paid in foreign exchange was thus extremely small.<sup>30</sup>

26. Cf. John C. deWilde, "German Trade Drive in South-eastern Europe," *Foreign Policy Reports*, November 15, 1936.

27. The share of Latin America in German imports rose from 9.1 per cent in 1933 to 13.1 per cent in the first nine months of 1936. In the same period, its share in German exports increased from 5.9 to 10.4 per cent.

28. Eicke, *Warum Aussenhandel?* cited, pp. 43-44.

29. *New York Times*, February 25, 1937.

The entire system of regimenting imports has revealed many serious faults. By tending toward the artificial balancing of trade accounts with each country, it has completely diverted German trade from its natural and most economic channels. In normal times about 80 per cent of the Reich's exports went to European countries which, with their high standards of living, provided the most profitable market for German manufactures. With the export surplus derived from its European trade, Germany was enabled to cover almost half of its import requirements in overseas countries, which could deliver needed raw materials and foodstuffs at the lowest possible cost. The many clearing and compensation arrangements have seriously disturbed this multilateral trade. The proportion of imports from Europe rose from 54 per cent in 1932 to 59 per cent in 1935, whereas the share of overseas countries fell from 46 to 41 per cent.

During the last few years Germany has bought not where it could buy most economically, but where it could dispose of German goods in exchange. The extent to which Germany has shifted the sources of its supply is particularly evident in imports of raw materials. The total amount of fats and feed imported from Europe rose from 1,017,000 tons in 1933 to 1,422,000 in 1935, while purchases in overseas nations declined from 2,832,000 to 1,775,000 tons.<sup>31</sup> In 1935 Germany obtained 17.8 per cent of its mineral oil imports in Rumania—as compared with 5.1 per cent in 1932—because it was not required to pay in foreign exchange.<sup>32</sup> Cotton purchases in the United States were greatly reduced, and diverted to Brazil, Argentina, Peru, Turkey and other countries. Wool is today no longer obtained primarily from Australia, but from Argentina and the Union of South Africa.<sup>33</sup>

The enforced reorientation of German import trade has in many cases increased the cost of primary products or entailed the use of materials of inferior quality. Often Germans have been compelled to buy raw materials in semi-manufactured form from countries which were not the original producers, simply because foreign exchange was lacking to obtain them directly. Brazilian cotton has cost more and is of lower quality than American cotton. Fruit imported through clearing and barter has been higher in price. The shift from Australian to South African wool necessitated cost-

30. Eicke, *Warum Aussenhandel?* cited, p. 34.

31. *Ibid.*, p. 23.

32. *Ibid.*, p. 20.

33. For figures on the source of cotton and wool imports, cf. *Weekly Report of the German Institute for Business Research*, May 20, 1936, and *Vierteljahrshefte*, cited, Teil B, 1936.

ly mill adjustments; and the partial substitution of European animal fats and domestic feed for the cheaper vegetable oils and seeds bought overseas has placed a considerable burden on German agriculture and industry.

Although informed Germans realize the grave defects of the import régime, they regard it as the product of circumstances over which they have had little or no control. Moreover, they claim the system has at least secured for Germany the raw materials necessary to sustain the internal economic boom and complete the rearmament program. This was accomplished only at the expense of drastically reducing imports of foodstuffs and finished goods. In the period 1932 to 1935 the value of foodstuffs bought abroad declined from 1528 to 1041 million marks, and that of manufactures from 727 to 565

million. On the other hand, imports of raw materials and semi-manufactures rose from 2412 to 2553 million marks, and aggregated 40,140,000 tons in 1935 as against only 21,822,000 in 1932. With the exception of cotton, wool and a few other commodities, the increase has been shared by all classes of raw materials. Most marked has been the rise in imports of ores and mineral oil, both of which are particularly essential to the armament program. On the whole, imports scarcely kept pace with rising production, and it has manifestly been impossible to replenish existing stocks. Consumption has had to be closely supervised and in many cases limited to strictly indispensable requirements. For example, the output of textiles was severely restricted, at first by limiting working hours and subsequently by imposing production quotas.<sup>34</sup>

### GERMAN FOREIGN TRADE

(in million marks)

Year	Imports				Exports				Export surplus + Import surplus —
	Livestock foodstuffs & beverages	Raw materials and semi- manufactures	Finished goods	Total	Livestock foodstuffs & beverages	Raw materials and semi- manufactures	Finished goods	Total	
1929	3,973	7,205	2,269	13,447	724	2,926	9,833	13,483	+36
1930	3,087	5,508	1,798	10,393	548	2,450	9,038	12,036	+137
1931	2,024	3,478	1,225	6,727	406	1,813	7,380	9,599	+2,872
1932	1,528	2,412	727	4,667	218	1,032	4,489	5,739	+1,073
1933	1,113	2,420	670	4,204	181	903	3,787	4,871	+667
1934	1,100	2,600	750	4,451	121	790	3,255	4,167	—284
1935	1,041	2,553	565	4,159	78	774	3,418	4,270	+111
1936	1,092	2,599	527	4,218	76	746	3,946	4,768	+550

The raw material shortage would undoubtedly have been much worse had the government not succeeded in its persistent efforts to stimulate exports during the last few years. The sale of German goods abroad yielded 4768 million marks in 1936, as compared with a low of 4167 million in 1934. Even so, the 1936 total was 65 per cent below 1929, and the proportion of industrial output exported amounted to little more than 11 per cent, as compared with 23.7 per cent in 1929.<sup>35</sup>

By restricting the increase in wages and prices the government has endeavored—although not very successfully—to keep the disparity between German and foreign prices within manageable bounds. To offset the price advantage enjoyed by other countries, exports have been liberally subsidized. During 1934 and 1935 the funds for this purpose came almost entirely from profits earned

through purchases of blocked marks, scrip issued in lieu of debt payments, and German bonds quoted at considerable discounts in foreign markets.<sup>36</sup> Most of these sources, however, dried up after 1934, when lack of foreign exchange led to a complete debt transfer moratorium and withdrawal of the offer to purchase scrip at a discount. Since the middle of 1935 funds have been obtained primarily from a levy imposed on industrial concerns through the agency of the Estate for German Industry. In accordance with an obscure law of June 28, 1935<sup>37</sup> every branch of industry was compelled to contribute a percentage, varying rather arbitrarily, of the total proceeds from sales for the home market. This tax is said to have produced about 750 million marks in the first year, and was renewed in 1936 despite the resistance of industry. Since the autumn of 1934 a part of German ex-

34. Cf. "Zwei Jahre 'Neuer Plan,'" cited.

35. Cf. figures in "Die Bedeutung des Aussenhandels für die deutsche Industriewirtschaft," *Sonderhefte des Instituts für Konjunkturforschung*, No. 41, 1936, p. 32, supplemented by statistics in *Weekly Reports of the German Institute for Business Research*.

36. Cf. deWilde, "Germany's Trend toward Economic Isolation," cited, p. 231.

37. *Reichsgesetzblatt*, Part I, 1935, p. 812. This law merely permitted the Reich Economic Chamber to levy on the various groups of German industry without specifying the purpose for which such contributions were to be used.

ports have also been subsidized indirectly by permitting payment in Aski marks which were usually quoted at substantial discounts from the "free" mark. Probably about one billion marks in all has been available for subsidies in each of the last two years. In 1935 the over-all subsidy rate is estimated to have amounted to about 25 per cent of the total value of exports,<sup>38</sup> and in 1936 the percentage was probably about the same.<sup>39</sup>

#### THE TRADE BALANCE AND FOREIGN EXCHANGE SUPPLY

Thanks to the drastic limitation of imports and the rise in exports, Germany had an export surplus of 111 million marks in 1935 and 550 million in 1936. Nevertheless, gold and foreign exchange holdings of the Reichsbank failed to show any improvement, even declining from about 84 million marks at the end of 1934 to 72 million at the close of 1936. To this total, which constituted 1.44 per cent of the entire note circulation, must be added the gold reserves of the Golddiskontbank which amounted to 49 million marks—a reduction of 25 million since the end of 1935.<sup>40</sup> In the opinion of some observers, gold stocks must actually be larger, because trade statistics for 1935 recorded a net importation of 101.5 million marks in gold and silver which was not reflected in bank balances.<sup>41</sup> Foreign exchange holdings are certainly larger than is

apparent from the weekly statements of the Reichsbank. The annual report of the Bank reveals that such holdings—including foreign currency, bills and checks, and deposits abroad—actually amounted to 177.3 million marks at the end of 1935, as compared with 108.7 million the year before.<sup>42</sup> Of this total only 5.2 million could qualify as legal reserve. Figures for the end of 1936 are lacking, but it is altogether probable that total reserves again rose considerably. To be sure, the Reichsbank cannot freely dispose of a substantial portion of these foreign assets because they are not convertible into gold or can be liquidated only through the process of clearing.

#### REICHSBANK HOLDINGS OF GOLD AND FOREIGN EXCHANGE

End of Year	Million Marks
1931	1156
1932	920
1933	396
1934	84
1935	88
1936	72

That the favorable trade balance in the last few years has not been correspondingly reflected by a rise in Germany's foreign assets is due to a variety of factors. Income from shipping, tourists and insurance was barely adequate to cover payments on the foreign debt, especially since foreign travellers in Germany met almost all their expenditure with registered marks frozen under the standstill agreements.<sup>43</sup> Part of the export surplus went to reduce clearing balances in the Reich which are estimated to have declined by 100 million marks in the year ending in November 1936.<sup>44</sup> Some of it was even devoted to the payment of tourist expenses in certain countries such as Switzerland and Italy. Other sales have not yet yielded foreign exchange because credit was extended.<sup>45</sup> In addition, coal valued at 20 million marks was delivered free to France in payment for the Saar mines, and a loss of 80 million in commercial accounts is said to have been

38. E. C. Donaldson Rawlins, *Economic Conditions in Germany to March 1936* (Great Britain, Department of Overseas Trade, His Majesty's Stationery Office, 1936), p. 158.

39. The use of subsidies brought the German government into sharp conflict with the United States, which regarded the practice as a violation of the 1930 Tariff Act. German sales in the United States, which dropped from 991 million marks in 1929 to 158 million in 1934, showed some tendency to revive in 1935 and early 1936 largely owing to the employment of Aski marks. On July 11, 1936, however, the United States government, acting under section 303 of the Tariff Act of 1930, imposed countervailing duties ranging from 22.5 to 56 per cent on a wide variety of German manufactures. Although German officials protested that the subsidies were only designed to offset devaluation of the dollar, the American government held that action was mandatory under the law. On August 3 the Reich Foreign Exchange Office issued an order banning barter deals and the use of Aski and registered marks in trade with the United States. Following German assurances that subsidies were no longer being paid, all countervailing duties were lifted in August. After a German trade delegation had visited the United States, the American Treasury Department issued an order on December 23, 1936 permitting the use of blocked marks provided the goods were imported directly by persons or firms who had continuously held these mark accounts. The same provision was made with respect to the employment of marks which had accumulated in Germany from the sale of American products. Finally, direct barter without actual money transaction was also permitted. Cf. "Der Warenverkehr mit USA," *Völkischer Beobachter*, January 11, 1937.

40. *New York Herald Tribune*, January 25, 1937.

41. In the first ten months of 1936 there was a net export of 6 million. Cf. *Wirtschaft und Statistik*, Second November Number, 1936, p. 873.

42. Cf. *Verwaltungsbericht der Reichsbank für das Jahr 1935* (Berlin, 1936).

43. *Weekly Report of the German Institute for Business Research*, October 21, 1936.

44. *Der deutsche Volkswirt*, January 22, 1937.

45. Credit was granted particularly in the sale of machinery and other production goods to the Soviet Union and to countries in southeastern Europe and Latin America. Under an agreement concluded on April 9, 1935, the Soviet government was to place in Germany additional orders for investment goods totaling 200 million marks. These purchases were financed by five-year credits, 75 per cent of which were guaranteed by the Reich government. Exports to the Soviet Union which had dropped from 282.2 million marks in 1933 to 39.3 million in 1935, rose to 126.1 million in 1936. Cf. *New York Herald Tribune*, February 13, 1937.



incurred when the Swiss and French francs and the Netherland guilder depreciated.<sup>46</sup> Capital also continued to be smuggled abroad in spite of all restrictions.

Germany's present foreign trade position is not entirely unfavorable. The proportion of exports going to overseas countries has been steadily increasing—from 21.9 per cent in 1933 to 29.1 in 1936, thus enabling the Reich once more to increase its imports of cheaper raw materials from extra-European countries. The percentage of imports from overseas rose for the first time in 1936, while the export surplus in European trade amounted to 851.4 million marks in 1936, as compared with only 560.5 million in the previous year. The trend toward bilateral balancing of trade seems therefore to have been arrested. Moreover, since the first quarter of 1935 exports have continued to expand both in volume and value, and imports began to rise in volume after the first quarter of 1936. Unfortunately for Germany these favorable aspects are balanced and perhaps even outweighed by highly unsatisfactory price developments.

CHANGES IN VALUE AND VOLUME OF GERMAN FOREIGN  
TRADE\*

(percentage changes over previous year)

	Imports		Exports	
	Value	Volume	Value	Volume
1933				
first quarter	—13.4	+ 1.7	—25.9	—17.3
second "	—11.5	+ 1.2	—14.0	— 4.8
third "	— 1.3	+ 5.3	— 5.6	+ 4.4
fourth "	—11.7	— 5.6	—12.7	— 1.9
1934				
first quarter	+ 6.6	+ 8.2	— 8.0	+ 3.0
second "	+14.0	+17.2	—16.5	— 8.2
third "	+ 1.2	+ 4.8	—18.3	—11.3
fourth "	+ 2.0	+ 5.0	—14.9	— 8.5
1935				
first quarter	— 2.7	+ 2.6	—11.6	— 4.0
second "	—12.5	—12.3	+ 0.3	+ 8.4
third "	— 8.6	—11.3	+ 9.4	+19.8
fourth "	— 2.4	— 6.9	+12.4	+20.0
1936				
first quarter	— 5.7	— 8.4	+17.3	+24.2
second "	+ 4.9	+ 0.9	+11.5	+14.7
third "	+ 6.3	+ 1.2	+10.5	+11.6

\**Vierteljahrshefte*, cited, Heft 3, Teil B, 1936, p. 120.

With the increased demand for raw materials throughout the world, prices of imported goods have risen rapidly since the first half of 1935, while exports—consisting chiefly of manufactures—have continued to fall in price. The decline slowed up in the first three-quarters of 1936, but it is possible

that the depreciation of former gold bloc currencies, which affects almost 30 per cent of the Reich's trade, has again depressed export prices.

That the German government considers the situation serious appears not only from the law of December 1, making illegal exportation of capital punishable with death, but also from the decree published on November 19, 1936, requiring that foreign securities held in Germany be deposited with foreign exchange banks. The latter decree was designed to enforce strict official control over the disposal of such securities and probably to enable the government to compel their conversion into foreign exchange whenever necessary. Another effort to increase the supply of exchange was made on December 1, 1936, with the promulgation of a law promising for the last time an amnesty to those who would repatriate and surrender foreign capital holdings. All these measures appear insignificant, however, when compared to the previous announcement in September that Germany would embark on a four-year program to achieve as great a degree of economic self-sufficiency as possible.

THE DRIVE FOR GREATER ECONOMIC SELF-CONTAINMENT

The Four-Year Plan was no striking innovation for Germany. The Agricultural Estate had launched a "production battle" in 1934, and attempts had also been made to diminish dependence on foreign sources for textiles and mineral oil. The new plan, however, did express Germany's determination no longer to place any great reliance on foreign trade. While officials associated with the Reichsbank and the Ministry of Economics have continued to stress the necessity of developing exports, the more radical National Socialists have hailed the Four-Year Plan as a means of realizing their long-cherished ideal of autarchy.<sup>47</sup> The radicals have always believed that complete political independence cannot be attained so long as Germany must rely on other countries for vital economic necessities.

How seriously Germany has set about this task is evident from the organization of the four-year program. By a decree of October 18, 1936 the Fuehrer placed General Göring in complete charge, conferring on him plenary powers to issue all decrees and administrative regulations required for execution of the plan.<sup>48</sup> To facilitate his work,

47. Contrast, for example, a speech by Dr. Blessing, director of the Reichsbank (*Völkischer Beobachter*, November 22, 1936), with an address by Bernhard Köhler, leader of the National Socialist Commission on Economic Policy (*ibid.*, September 21, 1936).

48. *Reichsgesetzblatt*, Part I, 1936, p. 887.

46. Reichskredit-Gesellschaft, *Germany's Economic Situation at the Turn of 1936-37*, p. 73.

Göring in turn established on October 23 six administrative divisions devoted respectively to (1) promoting the production of raw materials, (2) securing the proper distribution of available supplies in accordance with relative needs, (3) insuring an ample supply of labor, (4) stimulating agricultural production, (5) regulating prices, and (6) marshalling foreign exchange.<sup>49</sup> In addition, a law promulgated on October 29 created the office of Reich Price Commissioner with full authority to control the prices of all goods and services.<sup>50</sup> During the next four years all Germany's resources—land, labor and capital—will be mobilized to serve the campaign for greater self-sufficiency.

When Hitler characterized his new plan as a "stupendous task,"<sup>51</sup> he could not be accused of exaggeration. Germany is fully independent in only one important industrial raw material—coal. For all the others it has relied wholly or largely on foreign countries, as is indicated in the accompanying table.

PERCENTAGE OF RAW MATERIALS PRODUCED IN GERMANY,  
END 1934\*

Textile raw materials—total	10
Wool	8
Flax	10
Hemp, Jute and Silk	1
Artificial fibers	95
Cotton	0
Ores	
Iron	30
Manganese	50
Copper	10
Lead	34
Zinc	68
Nickel, Chromium, Tin and Wolfram	0
Other raw materials	
Bauxite	1
Mineral oil	30
Timber	75
Hides and skins	50
Coal	100
Rubber	0

\*Eicke, *Warum Aussenhandel?* cited, p. 55.

In 1933, as in 1928, from 40 to 45 per cent of the raw materials consumed by German industry were of foreign origin.<sup>52</sup>

Imports of textile raw materials are most important, judging by the amount of foreign exchange required. In 1935 cotton and wool were

imported to the value of 330 and 248 million Reichsmarks respectively, while imports of raw silk with 95 million and flax and hemp with 86 million were of secondary importance. During the last few years the German government has had some success in fostering domestic production of flax and hemp. The acreage devoted to hemp increased from almost nothing in 1932 to 5630 hectares in 1936, while that in flax rose from about 4000 to 44,000 hectares.<sup>53</sup> The 1936 hemp crop of 6000 tons is expected to cover a quarter of domestic requirements, while the output in flax fiber amounting to 30,000 tons is said to be sufficient for two-thirds of Germany's needs as against only 10 per cent in 1934.<sup>54</sup> To expand domestic production of wool will be much more difficult, because the necessary pasture land is lacking. Although the number of sheep rose from 3.38 to 4.33 million in 1936, Germany at present cannot supply more than 10 per cent of its needs.<sup>55</sup>

Prospects of displacing a substantial part of cotton imports by artificial fibers are not much more hopeful. Some progress has been made with synthetic fibers, all of which, with the exception of artificial silk, are now known as "cell wool." Although they are made from foreign wood, the raw material represents only 5 per cent of the cost of the finished product. The merits of cell wool have been disputed, but its consumption has increased considerably owing to the shortage of cotton and the provisions requiring its admixture up to a certain percentage in cotton and woolen goods.<sup>56</sup> Output rose from 4226 tons in 1933 to 23,050 tons in 1935.<sup>57</sup> Production in 1936 may have totaled about 40,000 tons,<sup>58</sup> and in 1937 with new factories coming into operation, it is expected to reach 70,000 tons, which would represent from 14 to 16 per cent of normal cotton and wool consumption in Germany.<sup>59</sup> Authorities ultimately hope to increase capacity to 150,000 tons yearly.<sup>60</sup> Efforts are also being made to stimulate the production of

53. Cf. Rawlins, *Economic Conditions in Germany to March 1936*, cited, pp. 59-60; also *Wirtschaft und Statistik*, Second November Number, 1936, p. 866.

54. *Vierteljahrshäfte*, cited, 1936, Heft, 3, Teil B, p. 165.

55. *Ibid.*

56. For cotton cloth the compulsory admixture of cell wool has been between 8 and 16 per cent; for wool somewhat higher, especially for government orders. Cf. "Zellwolle im Varmarsch," *Wochenblatt der Frankfurter Zeitung*, September 20, 1936.

57. Dr. Joseph Kubel, "Kunstseide und Zellwolle," *Der deutsche Volkswirt*, April 17, 1936.

58. Cf. speech by State Secretary Reinhardt, *Völkischer Beobachter*, September 28, 1936.

59. "Zellwolle im Varmarsch," cited.

60. Eicke, *Warum Aussenhandel?* cited, p. 56.

49. *Völkischer Beobachter*, October 24, 1936.

50. *Reichsgesetzblatt*, Part I, 1936, p. 887.

51. *Völkischer Beobachter*, September 10, 1936.

52. *Wochenbericht des Instituts für Konjunkturforschung*, 1934, No. 11.

rayon, which amounted in 1935 to 38,000 tons, or 6.8 per cent of the total consumption of textiles.<sup>61</sup>

Germany is likely to be more successful in displacing imports of mineral oil, which amounted to 165 million marks in 1935. With the aid of subsidies, domestic oil fields have been systematically explored and the production of natural crude oil increased from 229,700 tons in 1932 to 444,900 in 1936.<sup>62</sup> Since further expansion seems unlikely, chief reliance is now being placed on the manufacture of synthetic fuel from lignite and coal. Home production of light motor fuel rose from 600,000 tons in 1934 to 925,000 in 1935, and the proportion of domestic requirements supplied increased from 30 to 46 per cent. Of the 1935 output 365,000 tons represented gasoline, 380,000 tons benzol, and 180,000 tons alcohol which must by law be mixed with benzine.<sup>63</sup> The production of benzol cannot be increased at will because it is a by-product of coke-making, but the output of gasoline is capable of considerable further expansion. Lignite concerns, compelled to unite for this purpose in 1934, have erected and are operating a plant for the distillation of benzine from brown coal; the Leuna works of the Dye Trust are producing motor fuel through the hydrogenation of lignite; and the Ruhr coal-producers are using various processes for the liquefaction of bituminous coal. One writer estimates that with the aid of these new plants Germany can now produce 50 per cent of its requirements of light motor fuel, and in 1937 or 1938 might satisfy as much as 75 per cent of its needs.<sup>64</sup>

With the production of the heavier motor fuels and lubricating oil, the Reich has been less successful. In 1935 Germany produced only 10 per cent of the 830,000 tons of Diesel oil consumed, and about 20 per cent of the 400,000 to 450,000 tons of lubricating oil. By almost doubling the duties on such oils in December 1935, the government has sought to stimulate production through the further development of existing processes. Attempts have also been made to limit consumption of oil and benzine by encouraging the use of electricity, gas, wood, charcoal and coal dust in motor vehicles and stationary engines. All in all, Germany will probably be able, in the near future, to satisfy from one-half

to three-quarters of its motor fuel consumption as compared with little more than one-third in 1936.<sup>65</sup>

The importation of metals and ores cost Germany 431 million marks in foreign exchange during 1935. By means of subsidies the government increased the mining of iron ore from 1.34 million tons in 1932 to 5 million or 25 per cent of domestic requirements in 1935.<sup>66</sup> The 1927 total of 6.63 million tons, however, is not likely to be surpassed, for ore deposits are poor and limited.<sup>67</sup> As for zinc the Reich increased its output from 50,600 tons in 1933 to 124,000 in 1935,<sup>68</sup> and with the erection of two new plants is expected in 1937 to satisfy completely domestic requirements of 180,000 to 200,000 tons. Substantial extension of copper and lead production cannot be achieved. Aluminum is being increasingly employed as a useful substitute for other metals which are relatively scarce, particularly copper. The German output of aluminum rose from 37,200 tons in 1934 to 98,400 tons in 1936, while consumption expanded from 52,500 to 104,200 tons.<sup>69</sup> Domestic requirements will probably soon be covered by home production. The raw material, bauxite, must be imported, but it accounts for only 7 per cent of the final cost of aluminum.

There is little possibility of replacing imports of other raw materials. Rubber to the value of 45.3 million marks was bought abroad in 1935. Although the artificial rubber "buna," produced from lime and coal as ultimate raw materials, is said to be superior in strength and wearing qualities, its price is still too high to permit extensive substitution for the natural product. Of more immediate value is the increased regeneration of old rubber, which is estimated to cover about 20 per cent of domestic needs.<sup>70</sup> Neither can Germany dispense with imports of hides and skins which amounted to 164.7 million marks in 1935, because the number of cattle cannot be considerably increased. Finally, German timber production cannot be greatly expanded, although domestic output has been augmented in the last few years by the simple expedient of raising the cutting rate 50 per cent above that considered economically sound.<sup>71</sup>

65. *Vierteljahrshefte*, cited, 1936, Heft 3, Teil B, p. 141.

66. Rawlins, *Economic Conditions in Germany to March 1936*, cited, p. 78.

67. Through employment of the Martin ovens Germany has been making increased use of scrap iron. Henri Laufenburger, "L'autarchie et les tendances du deuxième plan quadriennal," *Politique Étrangère*, December 1936.

68. Reichskredit Gesellschaft, *Germany's Economic Development during the First Half of 1936* (Berlin, 1936), p. 16.

69. *Frankfurter Zeitung*, February 28, 1937.

70. Eicke, *Warum Aussenhandel?* cited, pp. 60-61.

71. *Vierteljahrshefte*, cited, 1936, Heft 3, Teil B, p. 158.

61. "Kunstseide und Zellwolle," cited.

62. "Heimische Treibstoffe," *Frankfurter Zeitung*, February 21, 1937.

63. Rawlins, *Economic Conditions in Germany to March 1936*, cited, p. 76.

64. Henri Laufenburger, "Le deuxième plan quadriennal allemand," *L'Europe Nouvelle*, December 5, 1936. Hitler prophesied in September 1936 that Germany would be able to dispense with benzine imports in eighteen months. *Völkischer Beobachter*, September 28, 1936.

In announcing the Four-Year Plan Hitler expressly conceded that the productivity of German agriculture was incapable of considerable expansion. By concentrating attention on increasing the German output of industrial raw materials, foreign exchange would be released for additional imports of foodstuffs. This declaration, however, did not mean that the Reich is abandoning all efforts to raise agricultural production. Germany still relies on foreign countries for about 15 per cent of its food supply, and if imports of animal feeds and fodder are included the proportion rises to 25 per cent. As the table below indicates, the dependence is greatest for fats and oils.

SELF-SUFFICIENCY IN FOODSTUFFS AT THE END OF 1934\*

Bread grain	97%
Other grain	73%
Potatoes and sugar	100%
Meat	98%
Milk, butter and cheese	90%
Without foreign feed	66%
Eggs	80%
Vegetables	90%
Fruit	80%
Fish	60%
Legumes	50%
Food and industrial fats	41%
Food fats	47%
Food oils	7%
Margarine	14%
Bacon	92%
Lard	79%
Butter	87%

\*Eicke, *Warum Aussenhandel?* cited, p. 50.

The recurring scarcity of certain foodstuffs in Germany during the last few years is primarily due to the drastic curtailment of food imports by 39 per cent from 1932 to 1935. This reduction would not have been felt so keenly had not the re-employment of several million people and the general rise in national income increased the demand for food products. Moreover, a succession of two poor harvests decidedly handicapped the campaign to raise domestic production. The government simply took the stand that imports of foodstuffs should yield precedence to raw materials necessary for the completion of the work-creation and rearmament program.<sup>72</sup>

Germany's ability to increase agricultural output is strictly limited by the amount of available land. It has been estimated that one-third of uncultivated moors and wasteland can be made usable by drainage and that almost one half of the 71 mil-

lion acres now devoted to agricultural use can be improved.<sup>73</sup> With the aid of the Labor Corps, some 2,630,000 acres have been reclaimed in the four-year period from 1932 to 1935.<sup>74</sup> At present the biggest drainage project in Europe, covering some 250,000 acres, is in progress near the Dutch frontier in northwestern Germany.<sup>75</sup> It is clear, however, that the main effort must be directed toward intensifying output on existing arable land.

Although German farmers have been able, under the stimulus of protectionist measures, to expand the production of grain in the last decade, record harvests in 1932 and 1933, together with extremely low consumption in the depression years, created a premature belief that Germany could supply entirely its own needs of bread grains. The large supplies remaining from the 1932 and 1933 crops had so concealed the true situation that the country was rather startled to discover a serious shortage for the winter of 1936-1937. As in the last two years, the 1936 harvest was mediocre owing to poor weather conditions. At the same time the carry-over of wheat had shrunk in the past year from 1370 to 690 thousand tons, and that of rye from 1350 to 480 thousand tons.<sup>76</sup> The reduction of feed imports and poor fodder and feed crops at home had caused increasing quantities of grain to be fed to livestock,<sup>77</sup> while the consumption of bread had risen, in part owing to a shortage of fats and meat. The authorities were therefore compelled to take drastic steps to insure an adequate supply. Price premiums on heavy hogs were lowered in an effort to make employment of rye as feed less profitable, and the use of rye and wheat for feeding purposes was forbidden to all keepers of livestock except farmers who had themselves produced the grain. Measures were also taken to compel farmers to deliver the grain quotas assigned to them under the existing marketing schemes.<sup>78</sup> Even so Germany has been compelled to make heavy wheat purchases in order to satisfy domestic demands for ten million tons of bread grain.

The German government has made particularly strenuous efforts to increase the output of feed and fodder, because the domestic supply of meat and dairy products largely depends on it. With re-

73. Rawlins, *Economic Conditions in Germany to March 1936*, cited, p. 51.

74. *Ibid.*

75. *New York Times*, December 25, 1936.

76. Reichskredit Gesellschaft, *Germany's Economic Situation at the Turn of 1936-37*, p. 24.

77. *Frankfurter Zeitung*, December 13, 1936.

78. "Weitere Massnahmen zur Sicherung der Brotversorgung," *Völkischer Beobachter*, January 12, 1937.

72. Speaking at Hof on October 12, 1936, Rudolf Hess, deputy leader of the National Socialist party, declared that the slogan was "Cannons instead of butter." *Völkischer Beobachter*, October 12, 1936.



spect to carbohydrate feeds, used primarily for the fattening of livestock, Germany has been nearly self-sufficient in the last five years. Former heavy imports of corn and barley have been replaced to a large extent by domestic rye, potatoes and sugar beets.<sup>79</sup> The Reich must still rely considerably on foreign countries for protein feeds such as legumes, cover crops and oil cakes which are essential for the production of dairy products and fats. Imports of such feeds declined from 2,741,000 short tons in 1932 to 1,904,000 in 1935.<sup>80</sup> Moreover, poor domestic harvests in the last few years have cut the supply of feed grains for 1936-1937 by 1.7 to 2 million tons, or about 20 per cent below consumption figures of the previous year.<sup>81</sup> Fortunately for Germany the potato crop in 1936 reached the record total of 45.72 million tons. The increase of 4.7 million tons over 1935 was estimated to have a grain value of 1.2 million.<sup>82</sup>

Although not neglecting the production of potatoes and sugar beets, the Reich Agricultural Estate has concentrated most of its attention on increasing the output of green fodder and oil seeds for cattle feed. In connection with this program it has also subsidized the construction of silos, the capacity of which was raised from 2.3 million cubic meters in 1934 to about 5 million in 1936.<sup>83</sup> Subsidies increased the production of rapeseed from 7400 tons in 1932 to 100,200 in 1936, and that of linseed from 2000 to 27,000 tons. Nevertheless, the oil cake produced from these sources—78,700 tons<sup>84</sup>—was rather insignificant compared with imports of 1,216,000 tons in 1935-1936.<sup>85</sup> Greater success has attended efforts to increase the output of green feeds. Field, meadow and-pasture lands have been and are being improved, and the sowing of cover crops encouraged. The area devoted to cover crops rose to 3,211,882 acres in 1935, as against only 1,952,572 in 1927.<sup>86</sup> The 1936 harvest of legumes (pulse, beans, vetch, lupines, etc.) amounted to but 500,000 tons, however—a decline of 28 per

cent from the 1930-1935 average.<sup>87</sup> In part due to the moist weather, the 1936 forage crop (clover, lucerne and meadow hay) totaled 40.66 million tons, compared to a 1930-1935 average of 33.92 million.<sup>88</sup> On the whole the increased output of forage, fodder and oil cake was far from sufficient to compensate for the sharp decline in feed imports.

The shortage of feed and fodder has made meat rather scarce during the last few years. The drought of 1934 brought about a sharp curtailment of hog raising and abnormally large slaughterings of cattle in the fall of that year. The ensuing shortage of pork was most severe in October and November 1935, when at times the supply in large cities was 60 to 70 per cent below normal. The shortage of beef, first felt in 1935, became particularly acute in the spring of 1936 when the government ordered a drastic reduction in slaughtering as a means of increasing the number of cattle. The slaughter of calves remained unlimited until October 1, 1936, when the threatened decimation of herds led to a curtailment of 20 per cent.<sup>89</sup> Prospects for the future seem a little brighter. Cattle numbers rose to 20.06 million in December 1936, as compared with a record total of 19.7 million in 1933 just before the drought. The number of swine totaled 25.86 million, as compared with only 23.88 million three years before, while the number of sheep had increased from 3.38 to 4.33 million.<sup>90</sup>

Efforts to stimulate the domestic output of animal fats and vegetables are unlikely to prove successful. The limited supply of feed and fodder makes it difficult to raise the production of hog lard and butter, while experience with the cultivation of oil-bearing plants has so far given little hope of supplanting a substantial portion of the imported vegetable oils which are used for both industrial and food purposes. Home production of vegetable oil rose from 4000 tons in 1932 to 45,000 in 1936, but even in the latter year constituted only 6.6 per cent of domestic consumption. The supply of butter, margarine and other fats was extremely limited in the winter of 1935-1936 and the impending recurrence of another shortage led the government on January 1, 1937 to institute a rationing system designed to reduce the consumption of fats by 25 per cent.<sup>91</sup> Faced by a shortage of butter and meat, the German people turned to eggs, only to

79. "Some Aspects of the German Feed Situation," *Foreign Crops and Markets*, June 29, 1936. Imports of carbohydrate feeds dropped from 4,496,000 short tons in 1927 to 1,904,000 in 1932 and only 745,000 in 1935.

80. *Ibid.*

81. *Frankfurter Zeitung*, October 18, 1936.

82. The sugar beet harvest also rose from 10.57 to 11.45 million tons, and 200,000 additional tons of sugar-beet chips are available for swine feed. Cf. *Völkischer Beobachter*, October 26, 1936.

83. *Völkischer Beobachter*, November 10, 1936.

84. *Wochenbericht des Instituts für Konjunkturforschung*, January 6, 1937.

85. *Völkischer Beobachter*, November 19, 1936. Premiums have also been paid for the cultivation of soya beans, but the results achieved so far have not been remarkable.

86. "Some Aspects of the German Feed Situation," cited.

87. *Ibid.*

88. *Völkischer Beobachter*, October 6, 1936.

89. "Die Fleischversorgung," *Frankfurter Zeitung*, October 18, 1936.

90. For 1936 figures, cf. *Völkischer Beobachter*, January 30, 1937.

91. *Wochenblatt der Frankfurter Zeitung*, February 7, 1937.

find that curtailment of imports had reduced the available supply from 9 billion in 1930 to 7.47 billion in 1935.<sup>92-93</sup>

The campaign for greater self-sufficiency has exacted burdensome sacrifices from the German people. To increase agricultural output, subventions have been granted to producers of hemp, flax and wool, and prices averaging twice as high as world market levels have been guaranteed for soya beans, rapeseed, linseed and other oil seeds of domestic origin. German consumers have had to bear a shortage of many foodstuffs and attendant high prices.<sup>94</sup> Although accurate data are lacking, the cost of most synthetic industrial materials is far above that of the natural imported products and the quality is often inferior. The price of synthetic benzine is said to be three and a half times the cost of imported gasoline, and the price of buna at least six times as high as that of natural rubber.<sup>95</sup> Cloth woven from a mixture of cotton and cell wool is reported to cost 30 to 40 per cent more than pure cotton cloth.<sup>96</sup> While prices of many of these products may ultimately become "competitive" just as those of artificial silk and synthetic nitrates, the German people must meanwhile shoulder the burden. Moreover, the manufacture of synthetic materials has required the investment of an enormous amount of capital at a time when capital resources are slim. The benzine plants of the Dye Trust and the lignite combine alone are said to have cost half a billion marks.<sup>97</sup> To carry out the Four-Year Plan, at least several billion more will be necessary.

#### GERMAN FINANCES

The financing of the large extraordinary expenditures for rearmament had already severely taxed the Reich's financial structure when the Four-Year Plan was inaugurated. How heavy this burden has been or whether it is likely to become unbearable can only be a matter for speculation, since the size of public and semi-public expenditure is unknown. No budget has been published

92-93. *Weekly Report of the German Institute for Business Research*, January 29, 1936. Despite all government measures, domestic supplies of fruit and vegetables have also been far from adequate, and have shown marked deficiencies in quality and variety.

94. From 1933 to June 1936, for example, the retail price of beef rose from 1.35 to 1.75 Reichsmarks, that of pork from 1.56 to 1.90, and that of veal from 1.61 to 2.20 marks. Cf. G. Uhrin, "La politique agricole et alimentaire de l'Allemagne," *Politique Etrangère*, December 1936.

95. Willson Woodside, "Germany's Hidden Crisis," *Harper's*, February 1937.

96. Eicke, *Warum Aussenhandel?* cited, p. 62.

97. Rawlins, *Economic Conditions in Germany to March 1936*, cited, p. 75.

since 1934, but even budget figures would not reveal the cost of the self-sufficiency program. The government has apparently compelled industries to finance plants for the manufacture of synthetic materials largely out of their own resources.

The belief prevails in many quarters outside Germany that the government has financed all or nearly all of its additional expenditures through short-term loans. While this was true of the first year or two of the National Socialist régime, the Reich is now meeting a considerable portion of these expenses out of its own resources. With business booming and tax rates kept at crisis levels, the Reich's income from taxes and customs has risen rapidly. In the four-year period ending March 31, 1937, the government's income will probably aggregate 10.5 billion marks more than in the fiscal year 1932-1933.

#### REICH RECEIPTS IN EXCESS OF 1932-1933 LEVEL\*

Year	Million R M
1933-34	199.2
1934-35	1,575.8
1935-36	3,007.1
1936-April to October incl.	3,020.0
Total to October 1936	7,802.1
Estimated total to April 1937	10,482.1

\*Compiled from current reports of the German Institute for Business Research.

Since the fiscal year 1932-1933 the Reich has also saved sums in unemployment assistance which have become available for work-creation and rearmament. These savings totaled about 4.08 billion marks by the end of October 1936 and will probably reach 4.85 billion by April 1937.<sup>98</sup> Other economies were also effected, notably by the conversion of a substantial part of the Reich debt which was carried through in 1934 and 1935.

Since additional tax receipts and savings were far from adequate, the Reich was compelled to borrow on a large scale. By the end of November 1936 the official recorded debt had increased by only 2,900 million—from 12,345 million on March 31, 1933 to 15,245 million—and, even if the circulation of tax-credit certificates is added, the rise amounted to only 3040 million. The unofficial or concealed debt, however, has risen much more

98. This amount is divided as follows:

1933-34	.39 billion R M
1934-35	1.09 " "
1935-36	1.52 " "
1936-37 (estimate)	1.85 " "
Total	4.85 " "

Cf. *Wirtschaft und Statistik*, Second November Number, 1936, p. 852.

rapidly. A large part of government orders were paid with bills drawn by contractors and "accepted" by institutions specially created for this purpose. These bills, which had an original currency of three months but could be extended up to five years, were not markedly different from ordinary commercial paper. They could be discounted at savings and credit banks and sold on the money market, and were rediscountable at the Reichsbank. They bore the guarantee of the Reich, and the government was ultimately responsible for their redemption. The Reich preferred, however, to cling to the fiction that these so-called work-creation and armament bills did not form part of the Reich debt until they were actually presented for payment.

RECORDED REICH INDEBTEDNESS  
(in million marks)

	March 1933	November 1936
Floating debt	1,948	2,760
Total debt	12,345	15,245
Debt including circulation of tax certificates	12,813	15,853

It is practically impossible to tell how many bills have been issued in this way and what amount is still outstanding.<sup>99</sup> In September 1936 an article in the semi-official *Völkischer Beobachter*<sup>100</sup> put the total increase in the short-term debt at 10 to 11 billion marks. Most foreign estimates place the amount of work-creation and armament bills at nearer 20 million, and many range much higher. In the London *Economist* of August 1, 1936 the issue of such bills is said to have increased from 1 to 2 billion in 1933, to 2 or 3 billion in 1934, more than 5 billion in 1935 and probably about the same amount in 1936. This total increase of 13 to 15 billion is the most conservative foreign estimate. It is confirmed by figures appearing in another British publication, *The Banker*.<sup>101</sup> Even if a total of 20 billion is accepted, the entire national debt would be only 36 or 37 billion marks. In relation to a 1936 national income of about 62 billion, a debt burden of that size would not in itself be excessive. The fact that a large part of the debt is not funded, however, does create possibilities of inflation.

99. Attempts have been made to calculate the bill circulation from bill tax receipts, but these estimates lack accuracy not only because many bills were taxed in advance for more than the ordinary three-months period, but also because the basis of the tax itself was changed in some unknown manner during March 1936.

100. Issue of September 25, 1936.

101. Issue of February 1937. This publication estimates government expenditure during the last four years at 31.1 billion marks in excess of that in the fiscal year 1932-1933. It puts the increase in the short-term debt at 1900 million in 1933-1934, 2500 million in 1934-1935, 4500 million in 1935-1936, and at least another 4500 million in the current fiscal year.

Up to the present the Reich has had little difficulty in floating its loans and marketing the special short-term bills. Since 1933 the government has enforced an almost total prohibition against private share and bond issues and monopolized the loan market for its own purposes. Industry therefore has financed replacements and new investments largely out of its own resources. The money market has remained extraordinarily liquid and readily absorbed the work-creation and armament bills which carried a remunerative interest rate and could, moreover, be rediscounted by the Reichsbank at any time. Both banks and industry have had considerable amounts of idle funds available. Bank assets were made more liquid by the retirement of certain special categories of bills such as those used to finance exports to the Soviet Union, and some two billion of so-called emergency bills which were issued by some institutions to finance deposit withdrawals in the financial crisis of 1931. Moreover, foreign trade credits in the form of acceptances declined considerably and, with the drop in stocks, especially of raw materials, advances on merchandise also fell. Most important of all, bank debts were paid off by industries experiencing a great increase in turnover at decreasing costs. In addition, industrial concerns themselves had money available for investment in government bills not only because an expanding production under stable wage conditions produced higher profits, but chiefly because production capacity was still so large that depreciation allowances did not need to be entirely spent on replacements.<sup>102</sup> In the four-year period ending October 1936 the bill holdings of German banks increased from 6.3 to 11.1 billion marks.<sup>103</sup> Since the circulation of genuine commercial bills has greatly declined in the last few years, bank holdings of work-creation and armament bills must actually be much larger than the indicated 4.8 billion marks. Industrial holdings are probably also quite large. Particularly during the last year or two concerns are reported to have been "encouraged" to keep such bills in their portfolio.

It is admitted in Germany as well as abroad that borrowing by the Reich is likely to meet with much greater difficulties in the future.<sup>104</sup> The fund

102. Cf. Reichskredit Gesellschaft, *Germany's Economic Development during the first Half of the Year 1936*, pp. 43-46; also supplement to the *Weekly Report of the German Institute for Business Research*, January 29, 1936, and "Die kommende Finanzierungsaufgaben," *Völkischer Beobachter*, September 25, 1936.

103. "Die Anstiegsfinanzierung," *Frankfurter Zeitung*, December 25, 1936.

104. Cf. "Die kommende Finanzierungsaufgaben" and "Die neue Reichsanleihe," *Völkischer Beobachter*, September 25 and November 13, 1936.



of idle capital has ceased to grow and is definitely contracting. The reduction of stocks and industrial bank indebtedness has reached the limit and shows signs of reversing. Now that industry is operating at 1929 levels, the need for long-deferred replacements and new plants is becoming ever more urgent. The growing demand for capital has given rise to the fear that large amounts of employment and armament bills may soon be presented to the government for redemption. That the government is aware of this possibility is evident from the consolidation loans which it has floated in the last few years. In 1934 and 1935 the Reich issued bonds totaling 3670 million marks, of which a large part was taken directly by savings banks and insurance companies. The Reich Railway Company also floated a loan of 500 million in 1935.<sup>105</sup> Another government bond issue of 500 million was announced on February 23, 1937.<sup>106</sup>

The Reich hopes to continue consolidating its short-term indebtedness as the market permits. It is probably banking on the large increase in tax receipts to meet most of its extraordinary fiscal needs. The authorities also hope that the accumulation of new capital which has been estimated at 2.35 to 2.55 billion marks for 1936<sup>107</sup> will expand rapidly enough to satisfy the requirements of the Four-Year Plan. With the completion of the rearmament program the government's own financial needs are likely to diminish. The government counts on its complete control of prices and wages to check any tendencies toward inflation. Nevertheless, it is apparent that the Reich must henceforth proceed more cautiously if it is not to overstrain its resources.

#### CONCLUSION

Despite all superficial indications of a prosperous economic boom, economic conditions in Germany are fundamentally far from sound. During

the last few years German prices, German currency and the German economy as a whole have become increasingly divorced from the rest of the world. While the German people are unlikely to starve and a financial collapse does not appear imminent, this progressive isolation has created severe stress and strain. In the end there are probably only two ways out of the present dilemma: an "explosion," as Dr. Schacht once prophesied,<sup>108</sup> leading to forcible territorial expansion; or the reintegration of Germany in the world economy. British and French statesmen have been trying to persuade the Reich to adopt the latter alternative.

Formidable obstacles face the resumption of complete economic and financial collaboration between Germany and other countries. The mark would have to be devalued and realigned with foreign currencies, while foreign exchange controls and drastic import restrictions would need to be abandoned. This in itself involves grave problems of readjustment. Germany does not appear anxious, moreover, to give up the campaign for greater self-sufficiency which many National Socialists regard as the inevitable corollary of political independence. It would at any rate insist upon certain conditions—reduction in the foreign debt and return of the German colonies—which other nations are reluctant to concede. Nor is Germany itself prepared to accept political conditions for any outside economic and financial assistance that might prove necessary. When proffering such aid recently, both Britain and France made clear that they expected the Reich in return to participate in a general political settlement involving, among other stipulations, an all-around reduction of armaments. The German press and officials responded to these offers with a firm refusal to trade Germany's "political freedom" for a "mess of pottage." At present the trend in Germany is clearly toward greater economic isolation from the rest of the world. If this tendency is pushed to its logical conclusion, it should ultimately lead toward a completely planned economy.

105. Reichskredit Gesellschaft, *Germany's Economic Situation at the Turn of 1936-37*, p. 58.

106. *New York Times*, February 24, 1937.

107. Cf. *Vierteljahrshäfte*, cited, 1936, Heft 3, Teil B, p. 130.

108. Cf. his speech of December 9 in the *Völkischer Beobachter*, December 10, 1936.